

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Before Commissioners:

Ruth Y. Goldway, Chairman;  
Mark Acton, Vice Chairman;  
Nanci E. Langley; and  
Robert G. Taub

Competitive Products Price Changes  
Rates of General Applicability

Docket No. CP2012-2

ORDER APPROVING CHANGES IN RATES OF GENERAL APPLICABILITY  
FOR COMPETITIVE PRODUCTS

(Issued December 21, 2011)

I. INTRODUCTION

The Postal Service proposes changes in rates of general applicability for certain competitive products and related classification changes. The changes are scheduled to become effective January 22, 2012. For the reasons discussed below, the Commission approves the planned rate changes and will reflect the classification changes in the draft Mail Classification Schedule (MCS).

## II. BACKGROUND

### A. The Postal Service's Filing

On November 22, 2011, the Postal Service filed notice with the Commission concerning changes in rates of general applicability for competitive products.<sup>1</sup> The Notice also includes related mail classification changes. The Postal Service represents that, as required by the Commission's rules, 39 CFR 3015.2(b), the Notice includes an explanation and justification for the changes, the effective date, and a schedule of the changed rates.

Attached to the Notice is the Governors' Decision evaluating the new prices and classification changes in accordance with 39 U.S.C. 3632-33 and 39 CFR 3015.2.<sup>2</sup> The Governors' Decision provides an analysis of the competitive products' price and classification changes intended to demonstrate that the changes comply with section 3633(a) of title 39 and the Commission's rules. See 39 CFR 3015.7(c).

The Attachment to the Governors' Decision sets forth the price changes and includes a draft MCS for competitive products of general applicability. On December 2, 2011, the Postal Service filed revised MCS language.<sup>3</sup> The price and classification changes are discussed below.

*Express Mail.* Overall, Express Mail prices increase by 3.4 percent. The existing structure of the Retail, Commercial Base, and Commercial Plus price categories does

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<sup>1</sup> Notice of the United States Postal Service of Changes in Rates of General Applicability for Competitive Products Established in Governors' Decision No. 11-8, November 22, 2011 (Notice). The Notice is available on the Commission's website, <http://www.prc.gov>. Pursuant to 39 U.S.C. 3632(b)(2), the Postal Service is obligated to publish the Governors' Decision and record of proceedings in the *Federal Register* at least 30 days before the effective date of the new rates or classes.

<sup>2</sup> Decision of the Governors of the United States Postal Service on Changes in Rates and Classes of General Applicability for Competitive Products (Governors' Decision No. 11-8), October 18, 2011.

<sup>3</sup> The Postal Service also provides revised non-public annexes, which display the FY 2012 forecasted financial performance for each competitive product. See Notice of the United States Postal Service of Filing Revised MCS Language and Non-Public Annex [Errata], December 2, 2011 (Revised Notice).

not change.<sup>4</sup> Retail prices increase, on average, by 4.4 percent. The Commercial Base price category decreases by 3.9 percent. The Commercial Plus price category, overall, receives a zero percent increase, where some individual prices will increase and some will decrease.

A new Express Mail Flat Rate Box is added and is priced at \$39.95 for each price category.

*Priority Mail.* Priority Mail prices increase, on average, by 3.1 percent. The existing structure of the Retail, Commercial Base, and Commercial Plus categories does not change.<sup>5</sup> Retail prices increase, on average, by 3.2 percent. The average increase for Commercial Base prices is 3.0 percent. Commercial Plus prices increase, on average, by 2.8 percent.

Changes to the price structure include the following: (1) the Regional Rate Box category is made available to retail customers;<sup>6</sup> (2) a larger-sized Regional Rate box tier is added to the two existing sizes; (3) the parcel volume threshold in Commercial Plus Cubic pricing is reduced from 250,000 to 150,000 pieces; (4) a separate price structure for Open and Distribute trays and flat tubs is introduced.<sup>7</sup> Cubic mailers will also be able to use soft packaging.

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<sup>4</sup> Commercial Base is available to customers using an authorized postage payment method. Commercial Plus is available to customers who use an authorized postage payment method and mail over 5,000 pieces annually.

<sup>5</sup> Commercial Base is available to customers using an authorized postage payment method. Commercial Plus is available to customers using an authorized postage payment method and whose annual volumes exceed 75,000 pieces or 600 open and distributed containers for parcels, or 5,000 letter-size and flat-size parcels, excluding the Padded Flat Rate Envelopes.

<sup>6</sup> The Governors' Decision No. 11-8 at 2 explains that retail customers would pay \$0.75 more for the Regional Rate Box option. Previously, Regional Rate Box was only available for Commercial Base and Commercial Plus customers. See Docket No. CP2011-26, Notice of the United States Postal Service of Changes in Rates of General Applicability for Competitive Products Established in Governors' Decision No. 10-4, November 2, 2010.

<sup>7</sup> Open and Distribute is a dropship service for mailers requiring expedited service to a local entry point. The mailers pay a rate for the type of container, plus the applicable postage for the mailpieces in the container.

*Parcel Select.* Parcel Select is a bulk parcel product designed for large and medium-sized shippers who want an economical ground delivery service. On average, Parcel Select prices will increase by 8.5 percent. For destination entry parcels, the average price increase is 7.6 percent for dropshipping at destination delivery units (DDU), 7.8 percent for parcels entered at a destination plant (DSCF), and 6.8 percent for parcels entered at a destination Network Distribution Center (NDC).

For nondestination-entered parcels, the average price increases are 1.5 percent for origin NDC presort, 0.9 percent for NDC presort, and 0.8 percent for nonpresort. Lightweight Parcel Select (formerly Standard Mail commercial parcels) increases by 8.9 percent. The maximum dimensions for Regional Ground increase to accommodate any machinable parcel in this price category. Lastly, the 3-cent barcode discount is eliminated since Intelligent Mail Package Barcode (IMpb) will be required for all parcels.<sup>8</sup>

*Parcel Return Service.* Parcel Return Service is designed for businesses that generate 500,000 or more returns a year. The product consists of returned merchandise that is retrieved in bulk at either a Return Network Distribution Center (RNDC) or a Return Delivery Unit (RDU).

On average, Parcel Return Service will increase by 4.6 percent. Prices for parcels retrieved at an RNDC will increase, on average, by zero percent. Prices for parcels retrieved at an RDU will increase, on average, by 8.9 percent.

The Postal Service notes two changes related to Parcel Return Service. The Mail Classification Schedule presents a new price category that allows businesses to retrieve parcels at a Return Sectional Facility (RSCF). In addition, the Governors' Decision states that the Postal Service's return product offerings, including Parcel Return Service and Merchandise Return Service, will be branded as "Return Service."

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<sup>8</sup> See 6 FR 59504 (September 27, 2011), which provides further information on the Postal Service's new IMpb program. The *Federal Register* notice explains that in January 2012, the Postal Service will initially implement its IMpb program by requiring a unique tracking barcode on all presort and dropship parcels (excluding Standard Mail parcels). The notice further states that in January 2013, the IMpb requirement will be mandatory and failure to comply will result in a fine.

*Commercial First-Class Package Service.* Commercial First-Class Mail parcels, recently transferred to the competitive product list, are renamed Commercial First-Class Package Service. On average, Commercial First-Class Package Service prices increase by 3.7 percent. There are no structural changes.

*Domestic Extra Services.* Premium Forwarding Service prices increase 3.0 percent. The weekly reshipment fee increases to \$15.25. On average, Address Enhancement Service prices increase 7.2 percent. In January 2012, 6,800 post office box locations join the existing 49 locations on the competitive product list. Additional fee ranges are added for boxes in Fee Groups 2 through 7. Finally, a Package Intercept service is introduced within the Competitive Ancillary Services product, priced at \$10.95.<sup>9</sup>

*International Expedited Services.* International Expedited Services includes two products: Global Express Guaranteed (GXG) and Express Mail International (EMI). Overall, International Expedited Services will increase by 11.3 percent. GXG prices will increase, on average, by 6.0 percent. EMI prices will increase, on average, by 11.6 percent.

For both GXG and EMI, classification changes include changes to published discounts. Rate cell-specific discounted schedules for both GXG and EMI replace across-the-board discounts for customers using approved postage payment methods. Commercial Base discount schedules replace across-the-board discounts for eligible shipments using selected payment methods. Customers tendering at least \$100,000 in revenue per year for GXG, EMI, and Priority Mail International (PMI) can request authorization for new commercial plus discounts.

Two versions of a new Express Mail International Flat Rate Box product are added featuring a flat rate of \$59.95 for boxes sent to Canada, and \$74.95 for boxes

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<sup>9</sup> Package Intercept Service allows a customer to request that the Postal Service intercept its package at the delivery unit, and either, return it to sender, hold it for pickup, or redirect it to an alternate domestic address. Intercepted packages will be sent using Priority Mail.

sent to all other countries accepting EMI. Both flat rate options have a maximum weight of 20 pounds.

Additional classification changes include: (1) country group assignments for the nation of Tonga; and (2) changes to the dimensional limits for EMI.

*Priority Mail International.* Overall, PMI prices increase by 8.7 percent. Classification changes include the simplification of dimensional criteria for flat rate envelopes and boxes, an increase in the maximum PMI dimensional limits, and the introduction of Commercial Base and Commercial Plus discounts similar to the changes for GXG and EMI.

*International Priority Airmail.* International Priority Airmail has a price increase of 1.0 percent.

*International Surface Air Lift.* International Surface Air Lift has a price increase of 13.7 percent.

*Airmail M-Bags.* The published prices for Airmail M-Bags increase by 3.5 percent.

*International Ancillary Services.* The overall increase for International Ancillary Services is 5.0 percent. Money Order prices increase by 4.7 percent.

Details of these changes may be found in the attachment to Governors' Decision No. 11-18.

The Notice also includes three additional attachments: (1) a redacted table that shows FY 2012 projected volumes, revenues, attributable costs, contribution, and cost coverage for each product, assuming implementation of new prices on January 22, 2012; (2) a second redacted table that assumes a hypothetical implementation on October 3, 2011 (for comparative purposes only); and (3) an application for non-public treatment of the unredacted version of the tables, which were filed under seal.

## B. Procedural History

In Order No. 997, the Commission gave notice of the docket, appointed a Public Representative, provided the public with an opportunity to comment, and requested supplemental information from the Postal Service regarding its planned rates.<sup>10</sup> In response to the request for supplemental information, the Postal Service provided an explanation for its rate tables and forecast data, additional detail concerning product descriptions, and further discussion as to why its Parcel Select rates comply with 39 U.S.C. 3633(a).<sup>11</sup>

Chairman's Information Request No. 1 sought clarification of the Postal Service's forecast data and the projected cost coverage for Parcel Select's planned rate changes, and the effect of below-cost rates for Lightweight Parcel Select on competitors.<sup>12</sup> In response to CHIR No. 1, the Postal Service states that although the instant price change will take effect during FY 2012, the Commission should analyze compliance with section 3633(a)(2) assuming the implementation of rates for a full year. In addition, the Postal Service states the FY 2012 projected cost coverage for Lightweight Parcel Select is not anti-competitive because Lightweight Parcel Select received the highest percentage increase within the Parcel Select product, and the prices for Lightweight Parcel Select are likely to increase in the future.<sup>13</sup>

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<sup>10</sup> Notice and Order Concerning Changes in Rates of General Applicability for Competitive Products, November 23, 2011 (Order No. 997).

<sup>11</sup> Notice of the United States Postal Service of Filing Supplemental Information With Portions Under Seal in Response to Commission Order No. 997, December 5, 2011.

<sup>12</sup> Chairman's Information Request No. 1, December 8, 2011. (CHIR No. 1).

<sup>13</sup> Responses of the United States Postal Service to Chairman's Information Request No. 1, December 13, 2011.

### III. COMMENTS

Two parties filed comments regarding the Postal Service's planned competitive price increases: the Public Representative and John Shirrell.<sup>14</sup>

*Public Representative.* The Public Representative raises three concerns regarding the proposed rate changes: (1) lack of sufficient supporting documentation; (2) insufficient detail for proposed classification changes; and (3) whether Parcel Select rates comply with 39 U.S.C. 3633(a) and 39 part 3015. PR Comments at 4.

The Public Representative maintains that in each of the previous competitive price adjustments, the Commission “has requested similar supporting documentation in its Initial Notice [and Order] or Chairman’s Information Request.” Footnote omitted *Id.* at 5. Because of the limited time period available to review competitive product rate changes, the Public Representative states that the Postal Service should provide the requested documentation, “such as price adjustment calculations, supporting forecast data, and expected cost coverage for international products, in its initial notice of the proposed rate changes.” *Id.*

The Public Representative contends that the Postal Service’s Notice did not discuss important classification changes made in the MCS, or provide sufficient descriptions of new services. *Id.* The Public Representative identifies three examples where the descriptions were lacking in appropriate detail. *Id.* at 5-6. With respect to Package Intercept Service, the Public Representative states that the description is incomplete because it does not specify that in addition to the \$10.95 Package Intercept Service fee, mailers must pay the applicable Priority Mail postage.<sup>15</sup>

Finally, the Public Representative asserts that the Postal Service has not demonstrated that Parcel Select will cover its costs, and thereby, comply with 39 U.S.C. 3633(a)(2) in FY 2012. The Public Representative reviews the Postal Service’s

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<sup>14</sup> See Comments of the Public Representative, December 9, 2011 (PR Comments); *see also* Letter by John Shirrell, December 8, 2011 (Shirrell Comments).

<sup>15</sup> The Public Representative references a November 22, 2011, *Postal News* press release that summarizes the Package Intercept Service and explains the applicable fees.



FY 2012 forecasts for Parcel Select in light of Order No. 689.<sup>16</sup> In that order, the Commission conditionally authorized the transfer of Commercial Standard Mail Parcels to the Parcel Select product requiring the Postal Service to demonstrate that the rates comport with 39 U.S.C. 3633 and 39 CFR 3015. The Public Representative contends that the Postal Service's forecasts appear to be based on the faulty assumption that Lightweight Parcel Select is a price category within the Parcel Select product for the entirety of FY 2012, rather than reflecting its actual implementation date, January 22, 2011. PR Comments at 8. She states that this assumption may have a large negative impact on the cost coverage of Parcel Select in FY2012. *Id.* As a result, the Public Representative concludes that the Postal Service has not demonstrated that its planned rates for Parcel Select comply with Order No. 689 and 39 U.S.C. 3633(a)(2).

*John Shirrell.* Shirrell also contends that the Postal Service's rate changes and product descriptions lack clarity. Shirrell Comments at 1. He contends that the Governors' Decision's explanation of the applicable retail charge for the Priority Mail Regional Rate Box price option is vague.<sup>17</sup> Shirrell cautions that the vague description may result in an inconsistent implementation of the retail charge by individual post offices. *Id.*

#### IV. COMMISSION ANALYSIS

The Commission has reviewed the Notice, the supplemental information provided by the Postal Service, and the filed comments. Planned price changes for competitive products are reviewed pursuant to 39 U.S.C. 3633(a) and Commission regulations under 39 CFR part 3015. In brief, these statutory and regulatory provisions require each competitive product to cover its attributable costs (39 U.S.C. 3633(a)(2)), prohibit the subsidization of competitive products by market dominant products (39 U.S.C.

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<sup>16</sup> See Docket No. MC2010-36, Order Conditionally Granting Request to Transfer Commercial Standard Mail Parcels to the Competitive Product List, March 2, 2011 (Order No. 689).

<sup>17</sup> See Governors' Decision No. 11-8 at 2 which states a \$0.75 charge is added to Regional Rate Boxes that are deposited through the retail channel.

3633(a)(1)), and require that competitive products collectively make an appropriate contribution to the recovery of the Postal Service's total institutional costs. 39 U.S.C. 3633(a)(3).

The Commission finds that the planned prices appear to satisfy the statutory and regulatory requirements of 39 U.S.C. 3633 and 39 CFR 3015.7. The planned prices for each competitive product should cover their attributable cost. In addition, competitive products as a whole are expected to contribute 8.5 percent to institutional costs in FY 2012—well in excess of the required 5.5 percent.<sup>18</sup> Consequently, market dominant products are not cross-subsidizing competitive products.

Three issues arose during the Commission's review of the instant competitive price adjustment: (1) Parcel Select's projected cost coverage; (2) classification descriptions in the Governors' Decision; and (3) required supporting data.

*Parcel Select compliance with 39 U.S.C. 3633(a)(2).* The Commission finds that the planned rates for Parcel Select comply with section 3633(a)(2) and Order No. 689 in Docket No. MC2010-36. However, the Commission reached its conclusion using a different approach than the Postal Service.

In response to CHIR No.1, question (1)(c), the Postal Service contends that even though the rates in the instant proceeding become effective on January 22, 2012, it believes the Commission should determine compliance with section 3633(a)(2) based on the rates being in effect for a full year. For this reason, the Postal Service asserts that the Commission should rely on the forecasted data that reflect rates becoming effective on October 1, 2011.

The Commission is not persuaded by the Postal Service's argument. Pursuant to 39 U.S.C. 3653(b), in its FY 2012 Annual Compliance Determination (ACD), the Commission must determine if the Postal Service's rates and fees in effect during FY 2012 complied with title 39. To comply with section 3653(b), the Commission's

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<sup>18</sup> See Library Reference PRC-CP2012-2-NP-LR1, Excel file "Revised Jan 22 NonPublic Annex.xlsx," which displays the expected FY 2012 financial contribution for all competitive products considering the revised data for Parcel Select.

FY 2012 ACD will be based on the actual reported data for FY 2012. Therefore, its assessment of rates and classifications that will be in effect during FY 2012 must be evaluated on the same basis.

To that end, to determine compliance with 3633(a)(2) for the planned rates in the instant proceeding, the Commission must rely on the forecasted data that reflects the rates going into effect on January 22, 2012. Those data show that planned rates for Parcel Select will not cover attributable cost. However, as the Public Representative notes, the Postal Service's FY 2012 financial forecast is based on the faulty assumption that revenues, costs, and volumes for Lightweight Parcel Select will be a part of the Parcel Select product for the entirety of FY 2012. PR Comments at 8. As discussed below, correcting for this assumption shows that Parcel Select should cover its attributable cost in FY 2012.

The Postal Service's assumption regarding Lightweight Parcel Select is not consistent with the requirements of Order No. 689. In Order No. 689, the Commission stated that it would authorize the transfer of Lightweight Parcel Select subject to the following conditions:

1. The Postal Service files a notice of competitive price adjustment for Parcel Select rates, including Lightweight Parcel Select parcels, demonstrating that such rates satisfy 39 U.S.C. 3633(a) and 39 CFR part 3015;
2. The Commission issues an order finding that the Parcel Select rates in (1) above satisfy 39 U.S.C. 3633(a) and 39 CFR part 3015; and
3. The Standard Mail Parcels transfer authorized by this Order is not effective until the effective date of prices authorized in (b), above.

As stated previously, the Postal Service presents price adjustments for Parcel Select rates that become effective January 22, 2012. Therefore, for FY 2012, commercial Standard Mail parcels will remain on the market dominant product list for the period October 1, 2011 through January 21, 2012. Lightweight Parcel Select will be part of the Parcel Select product from January 22, 2012 through September 30, 2012.

The Commission finds that Lightweight Parcel Select FY 2012 projected revenues, volumes, and costs reflecting the period October 1, 2011 through January 21, 2012 should be assigned to the market dominant Standard Mail Parcels product. The Commission recalculated the Postal Service's forecasted FY 2012 financial data for Parcel Select by removing FY 2012 forecasted financial data for Lightweight Parcel Select that reflects the period before January 22, 2012. Using this analysis, the rates for Parcel Select comply with section 3633(a)(2) and Order No. 689.<sup>19</sup>

*Classification descriptions.* As noted by both commenters in this proceeding, some of the Postal Service's new price categories as well as some proposed classification changes were not sufficiently described. With respect to these concerns, the Governors' Decision should, and the MCS must, provide sufficient descriptions of new price categories and classification changes to provide transparency to the mailing community. At a minimum, the Postal Service's notice of price changes should provide an adequate explanation of each new price category.

The Public Representative comments that the proposed MCS language concerning Package Intercept Service is unclear whether in addition to the \$10.95 fee mailers must also pay applicable Priority Mail charges. It is the Commission's understanding that the applicable Priority Mail charges are in addition to the fee. The draft MCS language will be clarified accordingly.

*Data submission.* The Public Representative observed that the Postal Service's initial filings lack supporting documentation. For the past three competitive price adjustment filings, the Commission has found it necessary to request supporting documentation either in its initial order or Chairman's Information Requests. For the Commission to complete its review of the planned price changes in the limited time available, it is imperative that the Postal Service's notice of the planned price adjustments include all relevant supporting data, e.g., forecast data, price adjustment

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<sup>19</sup> See Library Reference PRC-CP2012-2-NP-LR1, Excel file "Parcel Select Adjusted FY 2012 Forecasted Financial Data.xlsx", which shows the Commission's calculation of the expected financial performance for Parcel Select.

calculations, and expected cost coverage for international products. It is the Commission's expectation that future competitive price adjustment filings will include these data. Inclusion of these data enable the Commission to fulfill its responsibilities under the statute in timely fashion, e.g., whether the planned price changes satisfy 39 U.S.C. 3633(a).

In conclusion, based on the record before it, the Commission finds that the planned price changes appear to satisfy the relevant statutory and regulatory requirements. The proposed classification changes will be incorporated into the draft MCS.<sup>20</sup>

## V. ORDERING PARAGRAPHS

*It is ordered:*

1. The Postal Service's planned price adjustments for competitive products appear to comply with 39 U.S.C. 3633(a) and 39 CFR 3015.7.
2. The Postal Service has met the conditions outlined in Order No. 689 (Docket No. MC2010-36) to transfer commercial Standard Mail parcels to the Parcel Select product under the name Lightweight Parcel Select.
3. The Postal Service is directed to file supporting documentation with future competitive price adjustment filings, including supporting forecast data, price adjustment calculations, and expected cost coverages for international

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<sup>20</sup> As indicated in previous orders, the language suggested by the Postal Service in its filing is illustrative and subject to change in the MCS that the Commission ultimately adopts.

competitive products. Explanations of all new products or price categories should also be included in the Postal Service's initial notice of its competitive price adjustments.

By the Commission.

Shoshana M. Grove  
Secretary